EXCLUSION REQUEST NO. 2

a. Product Name: Non-Oriented Electrical Steel ("NOES") with Insulation Coating, NSC Models MS-4K and MS-7

HTSUS Classification: 7225.50.8085

b. Technical Description:

NSC manufactures two specialty models of NOES with insulation coating, known as MS-4K and MS-7, for which it seeks an exclusion. As discussed below, these models of NOES were custom-designed for Matsushita Refrigerator Company of America ("MARCA") of Venore, Tennessee, for MARCA's use in producing motor cores for refrigerator compressors. (MARCA is the second largest U.S. manufacturer of refrigerator compressors.) The technical specifications for these specialty products, which can be described as high-induction, low core loss, fully-processed NOES products with semi-organic insulating coating for stress relief annealing usage, are as follows:

NSC Model Number	Maximum Core Loss -- After SRA* (w/kg at 15/50)	Minimum Induction (B50)	Typical Hardness (Hv)	Chemical Contents (silicon, manganese, aluminum)	Coating**
MS-4K	5.00	1.73	110	Si max 0.3, Mn max 0.5, Al min 0.5	semi-organic insulation coating
MS-7	3.50	1.70	124	Si max 1.3, Mn max 0.5, Al min 1.0	semi-organic insulation coating

* SRA (Stress Relief Annealing) condition: 750 C° x 2 hours under non-oxidizing atmosphere.

** Coating: Semi-organic insulation coating, whose composition is an inorganic base substance including an organic substance, is used to improve both production efficiency and motor core properties. The organic contents of the insulation improve punching quality, machinability and weldability. The inorganic contents of the insulation improve insulation and prevent lamination sticking after annealing.

NSC Models MS-4K and MS-7 are fully-processed at NSC and are coated with a semi-organic insulation at NSC's facilities prior to delivery to MARCA. Generally, fully processed

steels are ready for use without the need for the end user to perform any additional processing, and the mill guarantees the magnetic properties of the product as delivered.[1] However, sometimes end-users (including MARCA) anneal fully-processed NOES material for stress-relief after such materials have undergone fabrication. Such further annealing by the end-user can affect the magnetic properties of NOES.

In manufacturing NOES models MS-4K and MS-7, NSC strictly controls its manufacturing process and chemical contents in order to achieve lower core loss after annealing by MARCA, and NSC guarantees the magnetic properties after MARCA's annealing.

c. Basis for Exclusion Request:

As detailed below, NSC Models MS-4K and MS-7 should be excluded from the scope of any Section 203 relief because (a) they are custom-made NOES products that were developed jointly with the U.S. end-user, and (b) U.S. mills do not manufacture these NOES products or any substitutable products.

(a) NSC Models MS-4K And MS-7 Are Unique Products That Were Custom Made For MARCA

On September 10, 2001, MARCA submitted a letter to the ITC requesting that it exclude NSC Models MS-4K and MS-7 from any remedy. *See* **Attachment 2-A.** As explained in MARCA's letter, in 1998 Matsushita (MARCA's parent company) and NSC jointly designed MS-4K and MS-7 for use in MARCA's high-speed automatic punching and lamination machines

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[1] In contrast, semi-finished steels are finished to final thickness and physical form by the steel mill but are not fully annealed to develop final magnetic quality, and the mills do not guarantee the magnetic properties of the product. The end user must submit such semi-finished steel to annealing treatment in order to achieve the magnetic properties.

invented by Matsushita. Prior to 1998, MARCA had experienced difficulties utilizing standard NOES in its production process. Specifically, MARCA had experienced low production efficiency caused by difficulties during both its punching process (due to variations in steel thicknesses) and its lamination process (caused by the steel sticking after annealing). In addition, MARCA's use of standard NOES produced motor core parts with unstable magnetic properties.

The joint design effort by Matsushita and NSC yielded NOES products that proved to have excellent production qualities (that is, the products were easily used with MARCA's punching dies and lamination machines) and were particularly well-suited for use in compressor motor cores, given the resulting low core loss and high induction levels. In 1999, NSC began shipping these specialty NOES products to MARCA. To date, NSC continues to be the only manufacturer, and MARCA is the only end-user, of this specialty NOES steel.

(b) *U.S. Mills Do Not Manufacture These Specialty NOES Products Or Any Substitutable Products*

The U.S. domestic steel industry does not manufacture the specialty NOES products (MS-4K and MS-7) that were custom-designed and are manufactured by NSC for MARCA. Although there are several U.S. manufacturers of electrical steels, including NOES products, none of these U.S. mills manufactures a product suitable for use in MARCA's manufacture of refrigerator motor cores. Specifically, as explained by MARCA in its September 10, 2001 letter included in **Attachment 2-A** (emphasis added):

> NSC is the only manufacturer, worldwide, of the MS-4K and MS-7 NOES products imported by MARCA. *These products are not manufactured by any U.S. steel company.* Although some U.S. steel companies (such as AK Steel and WCO Steel Inc.) manufacture certain types of NOES, *their products are not substitutable for the custom-designed NOES product . . . received from NSC. . .* .{MARCA's} high-speed punching machines are highly sensitive to variations in steel thicknesses and domestic producers have not been able to reduce thickness variation to the level required. In addition, the NOES products manufactured by

domestic producers are not produced with insulation coating that would improve both magnetic and mechanical properties after SRA to a level required by MARCA.

In short, NSC's laminated NOES products identified as MS-4K and MS-7 are essential to MARCA's business (and MARCA's customers), and exclusion of these products will not cause any harm to domestic steel mills, which do not manufacture these specialty products. Accordingly, these products should be excluded from any import restrictions imposed by the President pursuant to Section 203.

d. Names and Locations of Any Producers:

As noted above, NSC is the only producer of these products, which were jointly designed with MARCA for use in MARCA's high-speed automatic punching and lamination machines.

e. Total U.S. Consumption:

As noted above, NSC is the sole producer of these specialized NOES products, and NSC only began exporting these products to the United States in 1999. Accordingly, there was no U.S. consumption of these products prior to 1999. NSC's U.S. exports of these products totaled [1.00] in 1999 and [1.04] in 2000. [Index: 1999 = 1.00]

NSC [

]. NSC's projections for future U.S. consumption, based on its exports to the United States, are as follows:

	2001	2002	2003	2004	2005
Qty (ST)	[				]
Value US $	[				]

f. Total U.S. Production:

As noted, there is no U.S. production of these specialty NOES products, as confirmed in the September 10, 2001 letter from MARCA included in **Attachment 2-A**.

g. U.S.-Produced Substitute, Total U.S. Production of Substitute, and the Names of Any U.S. Producers of the Substitute:

As noted, there are no U.S.-produced substitutes for Models MS-4K and MS-7, as also confirmed in the September 10, 2001 letter from MARCA included in Attachment 2-A.

Attachment 2-A

MARCA
Matsushita Refrigeration Company of America
Panasonic

September 10, 2001

Total Pages: ___
Inv. No. TA-201-73
Investigation
THIS DOCUMENT CONTAINS BUSINESS PROPRIETARY INFORMATION. (Deleted)
Public Version

BY HAND DELIVERY
The Honorable Donna R. Koehnke
Secretary
United States International Trade Commission
500 E Street, S.W., Room 112
Washington, D.C. 20436

Re: **Section 201 Investigation of Steel Products (Inv. No. TA-201-73)**

Dear Ms. Koehnke:

This letter is being submitted by Matsushita Refrigeration Company of America ("MARCA") to request that the International Trade Commission ("the Commission") exclude two specialty Non-Oriented Electrical Steel (NOES) products from the scope of the above investigation or, alternatively, from any imposed remedies (if the Commission determines that the U.S. steel industry is "seriously injured" or "threatened" with such injury). These products are high-induction low core loss fully-processed NOES with semi-organic insulation coating for stress relief annealing usage. A detailed technical description is provided below.

MARCA, located in Vonore, Tennessee, is one of the largest U.S. manufacturers of home refrigerator compressors. Serving approximately 30 percent of the U.S. market, MARCA employs approximately 330 workers. MARCA is writing to express its concern about the potential impact of the above-referenced proceeding on the company's future ability to secure two specialty NOES products. These two products, which are not available domestically, are critical to MARCA's ability to continue manufacturing motor cores for refrigerator compressors. If MARCA were unable to produce motor cores using these specialty NOES products, the potential negative impact on the business would be significant.

As explained below, the two products of concern to MARCA were custom-engineered and custom-manufactured for MARCA by Nippon Steel Corporation (NSC). These specialized products are identified by NSC as model numbers "MS-4K" and "MS-7." As noted, no domestic steel producer manufactures these two specialty NOES products. Accordingly, we urge the Commission to exclude these products from the scope of the above-referenced proceeding.

I. General Product Description

The two specialty NOES products at issue (MS-4K and MS-7) can be described generally as high-induction low core loss fully-processed NOES products with semi-organic insulation coating for stress relief annealing usage. This steel is utilized to manufacture motor cores for hermetic motors, which are used in air conditioners and refrigerator compressors. MARCA's U.S. customers include General Electric, Amana, WP and Maytag. MARCA uses this steel to manufacture these motor cores for refrigerator compressors. Using the two specialty NOES in the manufacture of these motor cores results in more efficient appliances and increased saving of energy resources.

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MARCA
Matsushita Refrigeration Company of America
Panasonic

II. Technical Product Description

The technical specifications for the two NOES products for which we request exclusion are as follows:

Magnetic and mechanical properties

	Maximum core loss after SRA* (w/kg at 15/60)	Minimum induction (B50)	Typical Hardness (Hv)	Chemical contents (Silicon, Manganese, Aluminum)	coating**
MS-4K	5.00	1.73	110	Si max 0.3, Mn max 0.5, Al min 0.5	semi-organic insulation coating
MS-7	3.50	1.70	124	Si max 1.3, Mn max 0.5, Al min 1.0	semi-organic insulation coating

*SRA (Stress Relief Annealing) condition: 750 □ x 2 hours under non-oxidizing atmosphere.
**Coating: Semi-organic insulation coating whose composition is an inorganic base substance, but includes organic substances, and is used to improve both production efficiency and motor core properties.

a) Organic contents contribute to improved punching quality, machinability, and weldability
b) Inorganic contents contribute to improved insulation and to prevent laminations from sticking after annealing.

Standard "fully-processed" NOES products are fully annealed at steel companies to develop final magnetic properties and are ready for use without any additional processing at the customer's location. The NOES products at issue are "fully-processed" materials which are annealed and coated (with semi-organic coating) at NSC prior to delivery to MARCA, however, the materials are designed to develop the guaranteed magnetic properties after SRA at MARCA, thereby distinguishing the NOES product manufactured by NSC for MARCA.

Currently, MARCA imports these products under a Harmonized Tariff System classification applicable to cold-rolled alloy steel product, specifically under HTS 7225.50.8085. Although these products are considered to be specialty electrical products, they are classified under a tariff classification applicable to cold-rolled alloy products due to their chemical properties.

The two NOES products custom-manufactured for MARCA by NSC differ in significant respects from other NOES or cold-rolled products. *See* NSC Exclusion Brief, dated September 10, 2001, for more detailed explanation of manufacturing and product characteristic differences.

III. Customized Product History

In 1998, NSC in cooperation with Matsushita (MARCA's parent company) custom-designed the two specialty NOES products at issue for use by MARCA. The two specialty NOES products, MS-4K and MS-7, were designed specifically to be utilized in MARCA's high-speed automatic punching and lamination machines. MS-4K was designed to integrate two other grades, MS-1 and MS-4, used at the time, to improve MARCA's production efficiency. MS-7 was designed to meet Matsushita's demand for high-efficiency motors and had been used at its factories in Japan before 1998. MS-7 was introduced to MARCA in 1998 when MARCA decided to produce high-efficiency motors in the US. Prior to 1998, MARCA experienced difficulties using standard NOES. Low production efficiency was caused by laminations sticking after annealing and by poor punching quality. Unstable magnetic properties and variation in steel thickness also reduced production efficiency because of die and lamination press problems.

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As a result, NSC and Matsushita engineered these two steel products - MS-4K and MS-7 – that satisfy MARCA's requirements in terms of magnetic properties (low core loss values, high induction values), chemical composition, and physical and mechanical properties (i.e., thickness, width and hardness).

IV. No Domestic Availability

NSC is the only manufacturer, worldwide, of the MS-4K and MS-7 NOES products imported by MARCA. These products are not manufactured by any U.S. steel company. Although some U.S. steel companies (such as AK Steel and WCI Steel Inc.) manufacture certain types of NOES, their products are not substitutable for the custom-designed NOES product manufactured that MARCA receives from NSC. First, the domestically available steel is not suitable for use on MARCA's high-speed punching and lamination machines. These high speed punching machines are highly sensitive to variations in steel thickness and domestic producers have not been able to reduce thickness variation to the level required. In addition, the NOES products manufactured by domestic producers are not produced with insulation coating that would improve both magnetic and mechanical properties after SRA to a level required by MARCA. Rather, these products would require additional processing at MARCA's site, which is costly. Thus, the standard domestically supplied NOES products are not a realistic substitute for MARCA's business and operations.

V. Exclusion Would Have Limited Impact on the Domestic Steel Industry

As discussed above, the two NOES products at issue are designed for limited specific purposes (that is, for usage on MARCA's production equipment and to satisfy certain technical specification requirements) and are used to manufacture a limited range of products for a limited range of domestic end-users. MARCA's annual consumption of these two NOES products is approximately [ ] to [ ] MT/year.

Moreover, because the specific NOES products at issue (or any viable substitute) are not manufactured by the domestic industry, the exclusion of these specific NOES products would not (and, indeed, could not) cause any harm to the domestic industry members. Accordingly, we respectfully request that the Commission exclude these products from the scope of its Section 201 investigation (or remedy) applicable to imports of steel products.

Thank you for your attention to this request. If the Commission has any questions relating to this request, please contact Mr. Galvin Jones, General Manager, Manufacturing Services.

Sincerely,

T. Uchiura
President and CEO
MARCA

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